

# **FY 2003-04 CONSENSUS REVENUES**



## Consensus Revenues FY 2003-04

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This section explains May 2003 Consensus Revenue Estimating Conference estimates for GF/GP and School Aid Fund revenue for FYs 2002-03 and 2003-04 by major revenue sources. Several important assumptions behind the revenue estimates are discussed in the following text. Figures presented include Public Acts issued through August 2003.

### General Fund/General Purpose Revenue by Source

#### ***Personal Income Tax***

Wage and salary employment is expected to decline 0.7% in 2003, then grow by 1.4% in 2004. Michigan's unemployment rate is expected to reach 6.5% in 2003, up from the 6.2% rate in 2002, then decline to 6.1% in 2004.

As a result, Michigan personal income tax revenues are forecast to increase 1.5% in FY 2002-03 and 4.4% in FY 2003-04. Baseline GF/GP income tax revenues are expected to increase 1.5% to \$4,298.7 million in FY 2002-03, and increase by 4.5% to \$4,491.4 million in FY 2003-04.

#### ***Sales and Use Taxes***

Improved growth in wage and salary income will increase baseline sales and use tax revenue from \$916.6 million in FY 2002-03 to \$992.3 million in FY 2003-04.

#### ***Single Business and Insurance Taxes***

Single Business Tax (SBT) revenues accrue to the General Fund. Net baseline business taxes (SBT plus insurance taxes) were \$2,176.2 million in FY 2001-02 and will increase 3.0% to \$2,240.8 million in FY 2002-03 and 5.2% to \$2,358.0 million in FY 2003-04. Baseline Single Business Tax revenues alone were \$1,949.1 million in FY 2001-02; they are expected to increase 2.1% to \$1,990.0 million in FY 2002-03 and 5.3% to \$2,095.0 million in FY 2003-04.

#### ***GF/GP Baseline Tax Revenues***

Final GF/GP baseline tax revenues totaled \$7,951.2 million in FY 2001-02. General Fund/General Purpose baseline tax revenues are expected to increase in FY 2002-03 by 1.8% to \$8,094.8 million and in FY 2003-04 by 4.9% to \$8,494.5 million.

#### ***Total GF/GP Baseline Revenues***

Total baseline GF/GP revenues include baseline tax revenues and non-tax revenues. Non-tax revenue includes revenue from the liquor purchase revolving fund, federal aid, licenses and permits, and investment income and borrowing costs. Total GF/GP baseline revenues were \$8,280.2 million in FY 2001-02. General Fund/General Purpose baseline revenues are expected to increase by 0.4% to \$8,313.8 million in FY 2002-03 and by 4.3% to \$8,670.5 million in FY 2003-04.

#### ***Actual GF/GP Revenues***

Actual GF/GP revenues represent revenues available for expenditure each year and include adjustments to the baseline, such as tax changes and one-time federal revenue. Final total actual GF/GP revenues were \$8,427.0 million in FY 2001-02. Actual GF/GP revenues are expected to decline by 2.1% to \$8,250.7 million in FY 2002-03, then increase by \$76.3 million or 0.9% to \$8,327.0 million in FY 2003-04.

**GF/GP REVENUE ESTIMATES**  
(Millions of Dollars and Fiscal Years)

	<u>Final 2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2003-04 over 2002-03</u> <u>% Change</u>	<u>\$ Change</u>
Personal Income Taxes	\$4,233.5	\$4,298.7	\$4,491.4	4.5%	\$192.7
Sales and Use Taxes	956.3	916.6	992.3	8.3%	75.7
SBT and Insurance Taxes	2,176.2	2,240.8	2,358.0	5.2%	117.2
Other Taxes	<u>585.1</u>	<u>638.7</u>	<u>652.8</u>	2.2%	<u>14.1</u>
<b>GF/GP Baseline Tax Revenues</b>	<b>\$7,951.2</b>	<b>\$8,094.8</b>	<b>\$8,494.5</b>	<b>4.9%</b>	<b>\$399.7</b>
Non-Tax Revenue	<u>329.0</u>	<u>219.0</u>	<u>176.0</u>		<u>(43.0)</u>
<b>Total GF/GP Baseline Revenues</b>	<b>\$8,280.2</b>	<b>\$8,313.8</b>	<b>\$8,670.5</b>	<b>4.3%</b>	<b>\$356.7</b>
<b>Adjustments to Baseline</b>					
Prior to May Consensus	146.8	(229.9)	(511.8)		<b>(\$281.9)</b>
After May Consensus	<u>0.0</u>	<u>166.8</u>	<u>168.3</u>		<u>\$1.5</u>
<b>Actual GF/GP Revenues</b>	<b>\$8,427.0</b>	<b>\$8,250.7</b>	<b>\$8,327.0</b>	<b>0.9%</b>	<b>\$76.3</b>

**School Aid Fund Revenue by Source**

***Sales and Use Taxes***

Combined sales and use tax revenue dedicated to the SAF equaled \$5,130.0 million in FY 2001-02 and is forecast to increase 0.5% to \$5,156.4 million in FY 2002-03 and 5.1% to \$5,418.9 million in FY 2003-04. Baseline sales tax revenue is forecast to increase 0.9% in FY 2002-03 and 5.1% in FY 2003-04; baseline use tax revenue to the SAF is estimated to decrease 4.0% in FY 2002-03 and increase 5.2% in FY 2003-04.

***Income Tax***

Approximately 23.0% of gross income tax collections are dedicated to the SAF. Baseline dedicated income tax revenue is forecast to increase 1.4% to \$1,886.8 million in FY 2002-03 and increase 4.1% to \$1,964.1 million in FY 2003-04.

***Lottery/Casinos***

Lottery revenues contributed \$613.5 million to the SAF in FY 2001-02. Baseline lottery revenues to the SAF are projected to decrease 5.3% to \$581.0 million in FY 2002-03 and increase 0.7% to \$585.0 million in FY 2003-04. Casino revenue contributed \$91.9 million to the SAF in FY 2001-02, and is estimated to be \$91.0 million in FY 2002-03 and \$94.5 million in FY 2003-04.

***Tobacco Taxes***

Approximately 64.0% of gross tobacco tax revenue is dedicated to the School Aid Fund. The School Aid Fund received \$379.9 million from tobacco taxes in FY 2001-02. The demand for tobacco products is expected to decline over the duration of the forecast. Total SAF tobacco tax revenues are expected to decrease to \$371.0 million in FY 2002-03 and \$363.4 million in FY 2003-04.

***State Education Tax/Real Estate Transfer Tax***

All of the 6-mill state education tax (SET) and the real estate transfer tax (RET) is dedicated to the SAF. Revenues from the SET were \$1,583.7 million in FY 2001-02. SET revenues are expected to increase 5.5% to \$1,671.0 million in FY 2002-03 and 4.5% to \$1,746.0 million in FY 2003-04. The real estate transfer tax contributed \$253.1 million to the SAF in FY 2001-02 and is forecast to contribute \$260.0 million to the SAF in FY 2002-03 and in FY 2003-04.

**Total SAF Baseline Revenues**

Final total SAF baseline revenues were \$10,105.3 million in FY 2001-02. Baseline revenues are expected to increase 1.0% to \$10,209.0 million in FY 2002-03 and 4.1% to \$10,629.7 million in FY 2003-04.

**Actual SAF Revenues**

Actual SAF revenues represent revenues available for expenditure each year. Actual SAF revenues include tax changes, beginning balances, federal funds, and BSF transfers, but do not include any GF/GP transfers to SAF. Actual SAF revenues were \$11,413.7 million in FY 2001-02 and are expected to increase 7.4% to \$12,255.0 million in FY 2002-03, then decrease 1.1% to \$12,126.3 million in FY 2003-04.

**SCHOOL AID FUND REVENUE ESTIMATES**  
(Millions of Dollars and Fiscal Years)

<u>Revenues</u>	<u>Final 2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2003-04 over 2002-03</u> <u>% Change</u>	<u>\$ Change</u>
Sales and Use Tax	\$5,130.0	\$5,156.4	\$5,418.9	5.1%	262.5
Income Tax Earmark	1,860.4	1,886.8	1,964.1	4.1%	77.3
Lottery and Casinos	705.4	672.0	679.5	1.1%	7.5
Tobacco Taxes	379.9	371.0	363.4	-2.0%	(7.6)
State Education Tax	1,583.7	1,671.0	1,746.0	4.5%	75.0
Real Estate Transfer Tax	253.1	260.0	260.0	0.0%	0.0
Liquor Excise and Specific Taxes	<u>192.8</u>	<u>191.8</u>	<u>197.8</u>	3.1%	<u>6.0</u>
<b>Baseline SAF Revenues</b>	<b>\$10,105.3</b>	<b>\$10,209.0</b>	<b>\$10,629.7</b>	<b>4.1%</b>	<b>\$420.7</b>
Adjustments to Baseline	<u>1,308.4</u>	<u>2,046.0</u>	<u>1,496.6</u>		<u>(\$549.4)</u>
<b>Actual SAF Revenues</b> <b>(less GF/GP Transfer)</b>	<b>\$11,413.7</b>	<b>\$12,255.0</b>	<b>\$12,126.3</b>	<b>-1.1%</b>	<b>(\$128.7)</b>

**HFA Estimates of Year-End Balances**

The following table reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Please see notes following the table for additional detail.

**YEAR-END BALANCE ESTIMATES**  
(Millions of Dollars)

	<u>FY 2001-02</u>	<u>FY 2002-03</u>
General Fund/General Purpose	\$114.5	\$363.0
School Aid Fund	237.0	1.0
Budget Stabilization Fund	145.2	0.0

With regard to the year-end estimates, please note the following:

- Fiscal year 2002-03 estimates for GF/GP and the SAF are based on year-to-date appropriations, projected year-end adjustments, and consensus revenue estimates.
- School Aid Fund revenues are restricted; hence, any year-end balance is carried forward to the subsequent year.
- Budget Stabilization Fund (BSF) estimates are based on current balance estimates provided by the Michigan Department of Treasury and HFA estimates of future deposits and interest earned.

**Budget Stabilization Fund Year-End Balances**

The following table reports a history of BSF deposits, withdrawals, and interest earnings from FY 1990-91 to FY 2001-02 and HFA estimates of deposits, expected interest earnings, and year-end balances for FY 2002-03 through FY 2003-04. A complete list of BSF historical data is available from the HFA upon request.

The final BSF fund balance for FY 2001-02 was \$145.2 million. The fund balance for FY 2002-03 is forecast to be eliminated and for FY 2003-04 is forecast to measure \$73.1 million. If the FY 2002-03 GF/GP year-end balance exceeds \$350.0 million, then \$73.1 million will be deposited into the BSF and \$73.1 million will be deposited into the School Aid Stabilization Fund.

**BUDGET STABILIZATION FUND**  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Interest Earned</u>	<u>Balance</u>
1990-91	0.0	230.0	27.1	182.2
1991-92	0.0	170.1	8.1	20.1
1992-93	282.6	0.0	0.8	303.4
1993-94	460.2	0.0	11.9	775.5
1994-95	260.1	90.4	57.7	1,003.0
1995-96	91.3	0.0	59.3	1,153.6
1996-97	0.0	69.0	67.8	1,152.4
1997-98	0.0	212.0	60.1	1,000.5
1998-99	244.4	73.7	51.2	1,222.5
1999-2000	100.0	132.0	73.9	1,264.4
2000-01	0.0	337.0	66.7	994.2
2001-02	0.0	869.8	20.8	145.2
2002-03 <i>Estimate</i>	0.0	148.8	3.6	0.0
2003-04 <i>Estimate</i>	73.1	0.0	0.0	73.1

\*HFA Estimates

## Compliance with the State Revenue Limit

HFA estimates of the state revenue limit provided for in Article IX, Section 26, *Constitution of the State of Michigan*, and estimates of total state revenue collections subject to the state revenue limit are shown in the following table. As provided for in the *Constitution*, the revenue limit is calculated as 9.49% of total state personal income in the previous full calendar year prior to the fiscal year in which the revenues are measured, as estimated by the Bureau of Economic Analysis, United States Department of Commerce.

### COMPLIANCE WITH THE STATE REVENUE LIMIT (Millions of Dollars)

<u>Revenue Limit Calculations</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
Personal Income			
Calendar Year	CY 2000	CY 2001	CY 2002
Amount	\$289,390	\$297,609	\$304,491
X Limit Ratio	9.49%	9.49%	9.49%
<b>State Revenue Limit</b>	<b>\$27,463.1</b>	<b>\$28,243.1</b>	<b>\$28,896.2</b>
Total Revenues Subject to Revenue Limit	23,546.0	23,911.7	24,115.1
<b>Amount Under (Over) State Revenue Limit</b>	<b>\$3,917.1</b>	<b>\$4,331.4</b>	<b>\$4,781.1</b>

## Implications of Exceeding the State Revenue Limit

Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

... For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

The final FY 2001-02 revenue limit calculation indicates that the state revenue collections were well under the revenue limit. In addition, for both FY 2002-03 and FY 2003-04, state revenues are estimated to be substantially below the revenue limit, by \$4.3 billion and \$4.8 billion respectively.

\*Consensus Estimates